610.0060

QUESTIONS AND ANSWERS PERTAINING TO NEWLY CONSTRUCTED PROPERTY

1. QUESTION: How would you appraise a 1,500 square foot residence with a 1975 base year that has a 500 square foot garage converted to living area in February 1979?

   ANSWER: Assume 1975 base year value of $50,000 ($15,000 land and $35,000 improvements). In 1979, similar 1,500 square foot homes are selling for $90,000 with garages ($25,000 land, $65,000 improvements). Homes with 500 square foot garage conversions are selling for $95,000 ($25,000 land and $70,000 improvements).

   Value attributable to garage conversion equals $5,000. Value enrolled for 1979:

Land	=	$15,000 x 1.0824	=	$16,236
Improvements	=	$35,000 x 1.0824	=	37,884
Factored base year value			=	$54,120
Plus value of conversion			=	5,000
				$59,120

2. QUESTION: The owner of a Victorian single-family residence converts the property to a duplex by adding a kitchen to the second floor and an exterior staircase for access. A dilapidated stairway on the interior is removed. Would this conversion be subject to reappraisal?

   ANSWER: Yes. This physical alteration also leads to a change in use. Value attributable to the new construction can be added to the property. However, any value attributable to normal appreciation that might occur between the base year and the completion of the alteration cannot be added.

3. QUESTION: An almond orchard is subdivided into residential lots. How will the land be valued once the lots are developed but prior to the sale of the individual parcels?

   ANSWER: By estimating the difference in value of the land in the before and after condition at the time of construction. In the before condition, the land is to be considered undeveloped residential subdivision land (not an almond orchard). The value in the after condition represents that of the completed subdivision. The difference is that value which can be attributed to the "new construction" of land. We suggest that both the market approach (value comparison of an undeveloped subdivision with a developed subdivision) and the cost approach be considered. The value attributable to the new construction is added to the factored base year value of the land as in question number 1.

4. QUESTION: A vacant residential lot has been held by the same owner for ten years and the 1975 base year value is $10,000. A house was built in February 1979 and the February 1979 full market value of the unimproved lot was $20,000. How would the lot be valued?

ANSWER: After site improvement (leveling, site preparation or foundation excavation) the February 1979 value of the land is $22,500. Therefore, the land value in the before condition (at time of construction) is $20,000 and the land value in the after condition is $22,500. The difference between the two is $2,500 and this value is concluded to be the land value added by the new construction. The 1979 taxable land value would be computed in the following way:

1975 base value $10,000 x 1.0824 =	$10,824
Value attributable to new construction =	2,500
1979 taxable land value	$13,324

5. QUESTION: A home with 1,200 square feet has three bedrooms and one bathroom. It has a 1975 base year value of $43,000 ($13,000 land and $30,000 improvements). In September 1978 the owners added another bathroom in what had been a closet and part of a bedroom. How would this change be valued?

ANSWER: The work was done by a licensed contractor at a cost of $6,000. The owner reported that $1,000 was the cost of tearing out existing structure to begin work on the bathroom. None of the other homes in this area were built with two bathrooms and no sales can be found of homes with second bathrooms added. The 1979 value via the cost approach would be:

Land - $13,000 x 1.0824 =	$14,071
Improvements - $30,000 x 1.0824 =	32,472
	$46,543
Value added for bathroom ($6,000 - $1,000) =	5,000
	$51,543

6. QUESTION: How is a completely renovated residence (the equivalent of new) with a 1975 base year value appraised?

ANSWER: Assume the residence (improvement) has a 1975 base year value of $30,000 and the house is completely renovated in February 1979. We estimate the February 1979 unrestored improvement value to be $50,000. After renovation, the February 1979 value is $75,000. Therefore, the value difference in the before and after condition is $25,000. This amount is added to the indexed base year improvement value ($30,000 x 1.0824 = $32,472 + $25,000 = $57,472).

Thus $57,472 becomes the 1979 taxable value for the improvements which is added to the indexed land value (the base year land value remains unchanged as there was no physical alteration or addition to the land).

7. QUESTION: If a kitchen is extensively altered by adding built-ins, extending counter tops, adding new cabinets and removing or adding portions of walls, is this considered new construction?

ANSWER: If, in the opinion of the assessor, the kitchen is now the equivalent of a new kitchen, it can be considered newly constructed. If, however, the work is considered remodeling or maintenance, it would not qualify as new construction.

Appraisal Techniques

In determining the value of newly constructed property it is possible to use all three approaches to value. As in all appraisals, the direct market approach is the preferred approach if data are available. The application of this approach involves the comparison of the market value of the property with the alteration to the market value of the property without the alteration, both values being determined as of the date of completion of the new construction.

In many instances the cost approach may be the only practical approach, but it has inherent weaknesses. The appraiser must be careful to include all applicable costs and to deduct costs of "tear outs" prior to determining the final value of the new construction. A discussion of the application of the various approaches to value in the valuation of new construction is contained in assessors' letter 78/188, Principles of New Construction Valuation, October 30, 1978.

The enclosed questions and answers illustrate the application of these provisions. If you have any questions regarding this, please contact John McCoy of our staff.

Sincerely,

Verne Walton

Verne Walton, Chief
Assessment Standards Division

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Enclosure